

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0659-01
Bill No.: Perfected HB 148
Subject: Workers Compensation; Insurance - General
Type: Original
Date: April 8, 2015

Bill Summary: This proposal specifies that beginning January 1, 2016, certain shareholders of S corporations may elect to reject workers' compensation insurance coverage.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Second Injury Fund	Up to (\$406,850)	Up to (\$813,700)	Up to (\$813,700)
Workers' Compensation Admin Fund	Up to (\$67,809)	Up to (\$135,617)	Up to (\$135,617)
Total Estimated Net Effect on <u>Other</u> State Funds	Up to (\$474,659)	Up to (\$949,317)	Up to (\$949,317)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State**, the **Joint Committee on Administrative Rules** and the **Department of Insurance, Financial Institutions, and Professional Registration** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Department of Labor and Industrial Relations (DOLIR)** assume this proposal would authorize, beginning January 1, 2016, a shareholder with at least 40% interest in an S corporation to reject workers' compensation coverage by providing a written notice of the rejection to the corporation and its insurer.

DOLIR officials assume there will be a negative fiscal impact to the Workers' Compensation Administrative Tax and the Second Injury Fund. Information from the Department of Revenue indicates that there are 132,180 corporations located in the state of Missouri which would fall under consideration as an S corporation within the tax law. Of the 132,180 S corporations located in Missouri, 27,732 are Limited Liability Companies which are treated as S corporations under the tax law.

The premium determination for executive officers is calculated using the payroll amount of \$38,000, effective Jan. 1, 2014. The 2014 rate for officers and clerical class is 27 cents per \$100 of workers' compensation payroll. The payroll amount of \$38,000 divided by 100 multiplied by .27 equals \$102.60; which is the estimated premium for one officer. If all 132,180 S corporations have at least one shareholder who has a 40% or greater interest in the corporation and the shareholder individually elects to reject coverage, there would be a reduction in total premium of \$13,561,668 ($132,180 \times \102.60).

The Workers' Compensation Administrative Tax and Workers Compensation administrative surcharge rate for CY2014 was 1%. The Second Injury Fund surcharge rate and supplemental surcharge rate was a total of 6%.

Based on these assumptions, the fiscal impact to the Division of Workers Compensation would be a reduction in the Workers' Compensation Administrative Fund in the amount of \$135,617. The fiscal impact to the Second Injury Fund (including supplemental) would be a reduction of \$813,700.

ASSUMPTION (continued)

Oversight assumes this proposal would authorize a shareholder with at least 40% interest in an S corporation to reject workers' compensation coverage. Oversight also assumes the proposal could become effective January 1, 2016. Since it is unknown how many shareholders fall within this category, for fiscal note purposes, Oversight will use the DOLIR's estimate of loss to the Workers' Compensation Administrative Fund and the Second Injury Fund. Oversight will include a loss of six months (50% of full year loss) for FY 2016 and a full year as maximum possible losses for FY 2017 and FY 2018.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (6 Mo.)	FY 2017	FY 2018
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SECOND INJURY FUND

<u>Loss - DOLIR</u>	<u>up to</u>	<u>up to</u>	<u>up to</u>
Reduction in total premium	(\$406,850)	(\$813,700)	(\$813,700)

ESTIMATED NET EFFECT TO THE SECOND INJURY FUND	<u><u>up to</u></u> <u><u>(\$406,850)</u></u>	<u><u>up to</u></u> <u><u>(\$813,700)</u></u>	<u><u>up to</u></u> <u><u>(\$813,700)</u></u>
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**WORKERS' COMPENSATION
ADMINISTRATIVE FUND**

<u>Loss - DOLIR</u>	<u>up to</u>	<u>up to</u>	<u>up to</u>
Reduction in total premium	(\$67,809)	(\$135,617)	(\$135,617)

ESTIMATED NET EFFECT TO THE WORKERS' COMPENSATION ADMINISTRATIVE FUND	<u><u>up to (\$67,809)</u></u>	<u><u>up to</u></u> <u><u>(\$135,617)</u></u>	<u><u>up to</u></u> <u><u>(\$135,617)</u></u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
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<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

This proposal could result in cost savings on workers' compensation insurance for S corporations.

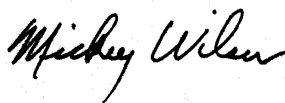
FISCAL DESCRIPTION

This bill authorizes, beginning January 1, 2016, a shareholder of an S corporation with at least 40% or more interest in the S corporation to individually elect to reject coverage under the workers compensation law by providing a written notice of the rejection to the S corporation and its insurer. Failure to provide notice to the S corporation will not be grounds for any shareholder to claim that the rejection is not legally effective. The shareholder may rescind the rejection in writing to the S corporation and its insurer. The rescission will entitle the shareholder only to the benefits which accrue on or after the date of the notice of rescission is received by the insurance company.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Department of Insurance, Financial Institutions and Professional Registration
Department of Labor and Industrial Relations



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Director
April 8, 2015

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Assistant Director
April 8, 2015